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SUBJECT: KAZAKHSTAN: ECONOMIC AND ENERGY UPDATE, MARCH 15-28

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11. (U) Sensitive but unclassified. Not for public Internet.

12. (U) SUMMARY: This information is drawn primarily from the Kazakhstani local press and has not been verified for accuracy.

- Adjusted Macroeconomic Forecast and Budget
- "Wartime" Economy
- Government to Issue Domestic Bonds in 2009
- Astana Finance Interested in Kazakhstan Subsidiary of RBS
- Criticism of Bloated Structure of KazMunaiGas
- Serik Burkhitbayev Sentenced to Six Years
- Foreign Investments in Electric Power Industry
- Energy Statistics

END SUMMARY.

ADJUSTED MACROECONOMIC FORECAST AND BUDGET

13. (SBU) On March 24, the Kazakhstani government adjusted its macroeconomic forecast and national budget for 2009. The GDP growth projection was decreased from 2.7% to 1%; the inflation forecast was increased to 11%. The projected world price of oil remained constant at \$40 per barrel. Budget revenues were adjusted to 2,837 billion tenge (or \$18.9 billion), a 23.5 billion tenge decrease from the plan approved earlier. The two major sources of revenue are 1,529 billion tenge (about \$10.2 billion) of non-oil taxes and non-tax revenues and 1,292 billion of transfers from the National (Oil) Fund and local budgets. Expenditures will be cut by 21.2 billion tenge to 3,411 billion tenge (about \$22.74 billion). The budget deficit will thus increase by 2.3 billion tenge to 573.6 billion tenge (approximately \$3.8 billion), though its share of GDP will remain the same, at 3.4%. The Ministry of Economy and Budget Planning continues to make assurances that no social expenditures will be cut. (COMMENT: The government, however, is feeling the pinch. Samruk-Kazyna National Welfare Fund officials confirmed to us that they are reducing staff and MFA sources state that there is a freeze on vehicle and furniture purchases. A senior expat advisor

to Samruk-Kazyna was observed driving a government-supplied Toyota Camry -- quite a step down from the usual Land Cruiser. END COMMENT.)

14. (U) The government proposed the allocation of additional resources from the National (Oil) Fund for anti-crisis measures. The government will transfer 348 billion tenge (approximately \$2.3 billion), in addition to the earlier approved 843 billion tenge (about \$5.57 billion). The additional amount is expected to be spent to create jobs and improve conditions for post-crisis development. The Ministry of Economy and Budget Planning anticipates that the National Fund will receive 1,193 billion tenge (about \$7.88 billion) in revenue in 2009.

15. (U) Oraz Zhandosov -- a well-known economist, former chairman of the National Bank, and former co-chairman of the opposition Azat party -- wonders why the new budget uses the same forecast for the price of crude -- \$40 per barrel -- as the old budget. He questions whether the government understands how the Kazakhstani economy has been impacted by the low price of hydrocarbons. To all appearances, the government was simply sitting and naively waiting for an oil price hike, Zhandosov claimed. He also expressed doubt that Kazakhstan's economy will experience positive growth in 2009. According to Zhandosov, if oil prices continue to fluctuate between \$40 and \$50 per barrel and the state maintains its bailout program, Kazakhstan can expect zero GDP growth in 2009.

"WARTIME" ECONOMY

16. (U) Speaking at a Cabinet meeting on March 26, Prime Minister Masimov announced that until the end of 2009, the government is switching to "manual management" of the economy. "I do not see any other solution to the crisis; the market is not working as it should." The Prime Minister added that active intervention on the part of the government has become necessary not just in Kazakhstan

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but in all countries affected by the crisis. "If a crisis is a war, then now we will live by wartime rules," the Prime Minister concluded.

GOVERNMENT TO ISSUE DOMESTIC BONDS IN 2009

17. (U) According to a high-ranking official at the Ministry of Finance, the government is considering borrowing on the domestic market and issuing government bonds worth 780 billion tenge (approximately \$5 billion) this year. A share of the bonds worth about 15 to 20 billion tenge (\$99 million to \$132.2 million) could be issued especially for the public. According to the official, government bonds could be a good alternative to bank deposits, whose credibility has been undermined in the last months. While it does not guarantee a high yield, the Finance Ministry promises "absolute liquidity" of the bonds.

ASTANA FINANCE INTERESTED IN KAZAKHSTAN SUBSIDIARY OF RBS

18. (U) Astana Finance Bank has submitted an offer to Royal Bank of Scotland to purchase its Kazakhstani subsidiary, Interfax reported. Should the transaction proceed, Astana Finance is expected to refocus the bank on retail banking, away from its current emphasis on corporate banking. The price and the timing of the deal have not been specified, and RBS itself refused to give an official comment. Astana Finance Bank is part of the Kazakhstan-based investment group Astana Finance. The Government of Kazakhstan and Samruk-Kazyna National Welfare Fund together own about 25% of the shares in Astana Finance.

CRITICISM OF BLOATED STRUCTURE OF KAZMUNAIGAS

19. (U) In an article titled "Goodbye, KazMunaiGas!," the newspaper "Megapolis" criticized the non-transparent organization of the national oil and gas company KazMunayGas (KMG). With KMG having numerous non-core assets and a complex structure of subsidiaries, the author compared the conglomerate to a set of Russian nesting dolls. The article calls on the owner of KMG, the Samruk-Kazyna National Welfare Fund, to radically restructure KMG. To support

this view, "Megapolis" cites a memorandum, reportedly written for President Nursultan Nazarbayev by Nurlan Balgimbayev, his energy advisor. Balgimbayev purportedly wrote, "KMG has four vice presidents, plus 12 managing directors with authorities similar to those of first deputies. Moreover, managing directors supervise 11 executive directors. Decisions are delayed for months due to internal procedures, the efficiency of operational management is worsening, and the responsibility of executive officers has been diffused."

¶10. (U) KMG president Kairgeldy Kabyldin revealed plans to boost KMG's transportation capacity to 170 million tons of crude oil and 180 billion cubic meters of gas within the next ten years. He said that by 2013, KMG aims to reduce the number of its subsidiaries by more than half, boost corporate governance, streamline its decision making processes, and shed non-core unprofitable assets. After having revised its 2009 revenues and budget expenditures, KMG expects a net profit of 88 billion tenge (\$581.58 million) in 2009. Kabyldin also said that the company may acquire assets in Central Asia and other CIS member states.

SERIK BURKITBAYEV SENTENCED TO SIX YEARS

¶11. (U) The media reported on March 24 that former KMG president Serik Burkitbayev was sentenced to six years in prison by a closed military tribunal for providing technical equipment used by former Nazarbayev son-in-law Rakhat Aliyev to eavesdrop on Nazarbayev and other senior government officials. The investigation of this case was conducted by the Committee for National Security (KNB), but the Financial Police are also investigating Burkitbayev for the embezzlement of \$20 million from the Kazakh Institute of Oil and Gas, where he was director from 2003 to 2007.

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FOREIGN INVESTMENTS IN ELECTRIC POWER INDUSTRY

¶12. (U) The European Bank for Reconstruction and Development (EBRD) is acquiring a 18% stake in Central Asian Electric Power Corporation (CAEPCo), a subsidiary of Central Asian Power Energy Company (CAPEC), for 9.2 billion tenge (\$61.3 million). CAEPCo plans to use the funds to invest in modernizing its power transmission and generation assets in Astana, Petropavlovsk, and Pavlodar by 2013. In 2007, CAEPCo received a \$30-million loan to modernization the Pavlodar coal-fired plant TETs-3.

¶13. (U) According to a March 25 agreement, the Korean Electric Power Corporation and Samsung Corporation acquired a 75% share of the Balkhash coal-fired power plant (TETs). The remaining 25% of outstanding shares belong to Samruk-Energo, a 100% subsidiary of the Samruk-Kazyna National Welfare Fund. The first two 660-megawatt blocks of the Balkhash TETs are planned to be launched in 2014, and the other two in 2016-2017. The first two blocks will cover a one-gigawatt power deficit in southern Kazakhstan, and the remaining blocks will replace the Zhambyl power plant, which serves as a back-up power-generator in the winter. The construction of the Balkhash TETs costs \$4.5 billion.

ENERGY STATISTICS

¶14. (U) During January and February, Kazakhstan produced 10.01 million tons of crude oil and 5.74 billion cubic meters of natural gas, an increase of 7.5% and 3.4%, respectively, over the same period in 2008. In January, Kazakhstan exported 4.45 million tons of crude oil and gas condensate, valued at \$1.37 billion, marking a 9.3% decrease in export volume and a 56.1% decrease in export value compared to the same period last year. In the first two months of 2009, Kazakhstan's coal production decreased 20% year-on-year to 15.9 million metric tons. Power generation similarly decreased 9.6% year-on-year to 14.23 billion kilowatt-hours.

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